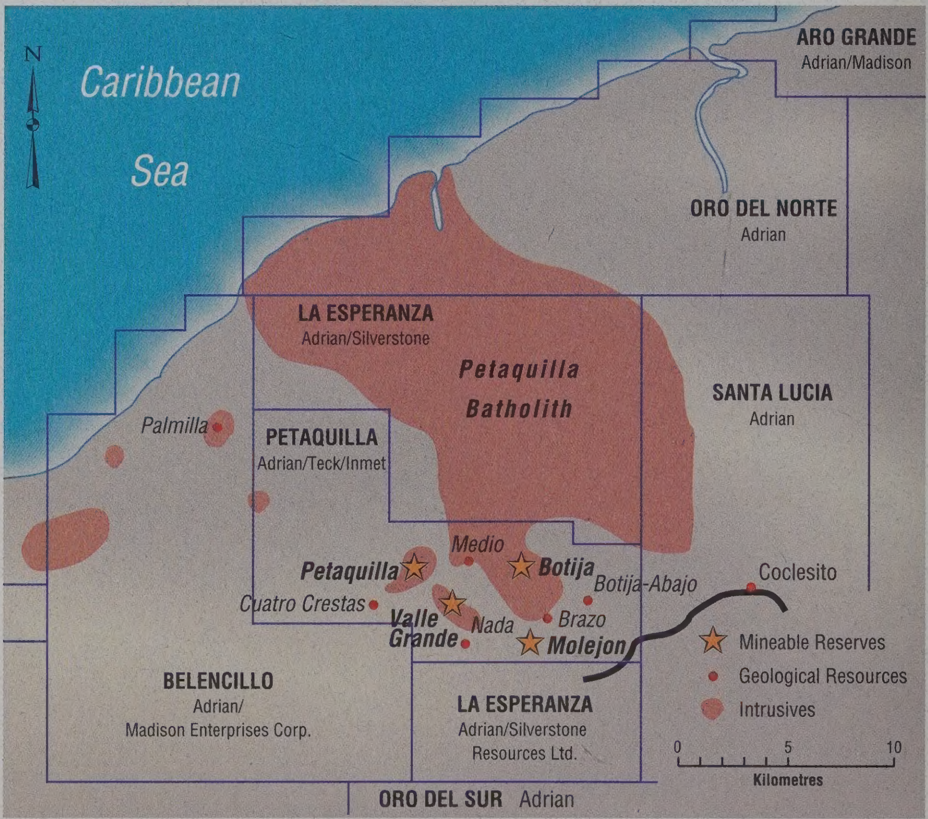
ADRIAN RESOURCES LTD.

1996 ANNUAL REPORT



Adrian Resources Ltd. is a Vancouver based mineral exploration company whose shares are listed on the Toronto, Vancouver and Panama Stock Exchanges and on the Nasdaq SmallCap Market℠ in the United States. Operations are focused on the exploration and development of nine contiguous concessions totalling 2,086 square kilometres in a region of north-central Panama known as the "Petaquilla" Mineral District. This exciting project represents a significant undeveloped mineral district hosting 25 mineralized areas including ten mineral deposits.

I am pleased to report on Adrian's activities for the fiscal year ended January 31, 1997. Although it was a difficult year for your Company, Adrian has made significant strides towards its goal of placing the Petaquilla Property into production.

Difficulties in 1996

In June 1996, the price of copper fell dramatically with the revelation of significant trading improprieties by Sumitomo Corporation. This was followed later in the year by the failure of Teck Corporation (Teck) to complete its bankable final feasibility study on the Petaquilla Property by November 1996 in accordance with the financing agreement between Adrian and Teck. The project legislation which Adrian had been working towards since 1994 still had not passed by the end of the last fiscal year. All of these factors had a considerable negative impact on the market price of Adrian's shares.

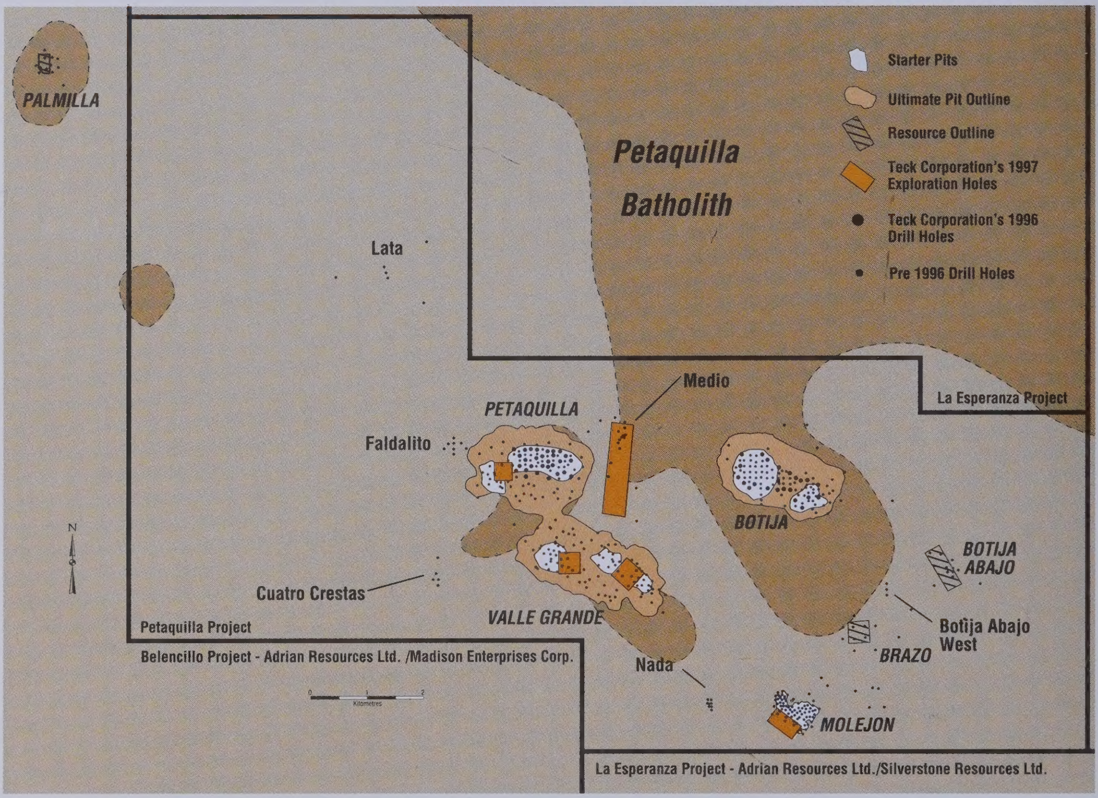
Adrian's corporate strategy has been to monetize its assets by means of the sale of all of the shares of Adrian by way of international tender. The fall in the price of copper resulted in the first delay of this sale process. The delay was exacerbated by the fact that the final bankable feasibility study was not completed on schedule.

Developments in 1997

Fortunately, since January 31, 1997, Adrian has resolved its differences with Teck and the project legislation for Petaquilla was enacted into law. Both of these achievements remove significant impediments to placing Petaquilla into production. In order to reach an agreement with Adrian, Teck agreed to abide by a set of stringent work and reporting requirements and to purchase a total of 1,500,000 shares of Adrian in the open market and from Adrian's treasury. For its part, Adrian agreed to give Teck until January 1998 to complete the final bankable feasibility study. Unfortunately, the market price of Adrian's shares has yet to rebound to reflect these achievements.

The Petaquilla Project

Despite the setbacks in 1996, Adrian's fundamentals remain strong. In February of 1996, Adrian published the results of a scoping study prepared by Fluor Daniel Wright Ltd. ("FDW") which included the results obtained from drilling to the end of 1995. The report



Location of deposits on the Petaquilla and Belencillo concessions with starter pit locations and ultimate pit outlines as projected by Fluor Daniel Wright.

estimated that geological resources in the Petaquilla Mineral District are approximately 3.74 billion tonnes in ten deposits containing a total of 31.8 billion pounds of copper, 9.8 million ounces of gold and 962 million pounds of molybdenum. In addition, FDW concluded that the recoverable payable metal content contained in the Botija, Petaquilla, Valle Grande and Molejon deposits alone totals at least 13.74 billion pounds of copper, 3.17 million ounces of gold and 287 million pounds of MoS_2 in measured and indicated mineable reserves totalling 1.46 billion tonnes grading 0.493% copper, 0.11 g/t gold and 0.015% MoS_2 using a cut-off grade of 0.35% copper equivalent. Much of the Petaquilla District remains untested and most of the deposits discovered thus far remain open to expansion.

Teck Feasibility Program

During the last year, Teck continued to undertake exploration and development work on the Petaquilla Property as part of its preparation of a final bankable feasibility study on the

project. During 1996, Teck completed 122 diamond drill holes totalling 26,641 metres. This total was comprised of 89 infill holes (31 at Botija, 45 at Petaquilla, 3 at Medio and 10 at Valle Grande) and 33 condemnation holes. This work is continuing in 1997 and will include the drilling of 18 HQ size large diameter core holes at the Botija and Petaquilla deposits for bulk sample metallurgical testing along with at least 24 exploration and infill holes at the Medio, Petaquilla, Valle Grande and Molejon deposits. This exploration and infill drilling is expected to total at least 8,500 metres. The full 1997 program to be carried by Teck will include:

- additional drilling, referred to above, to define starter pit reserves (copper-equivalent grade in excess of 0.7%) in the Rio Medio and Valle Grande areas
- a detailed assessment of the Molejon deposit both as part of the copper mining operations and as a stand-alone gold operation
- the test program referred to above of large diameter diamond drill core bulk sampling and metallurgical testing in at least two of the pit areas (Petaquilla and Botija)
- a comprehensive study of the relative advantages and disadvantages of land based and submarine tailings disposal
- an assessment of the feasibility of dump leaching of prestripped material
- all environmental studies which are required in order to obtain commitments for project financing; and
- optimization of mine and plant design and location, recalculation of reserves, and an assessment of operating costs and optimum throughput based on the results of the work currently being carried out; the final bankable feasibility study will include reserve calculations by both H.A. Simons and Fluor Daniel Wright as well as full mining plans and financial analyses based on the reserves calculated by each firm; these mining plans and financial analyses will assume mill throughput rates of 90,000 and 120,000 tonnes per day, and additional mining plans and analyses may be undertaken to examine increasing throughput during the mine life from 90,000 to 120,000 tonnes per day.

Initial results from the 1997 work program include the completion of successful testwork by an independent engineering firm retained by Teck to examine the effect of a primary grind for ore from the Petaquilla project coarser than the flotation feed sizing of $120\mu mK_{80}$ used by Teck in its initial evaluation. On the basis of the testwork conducted to date, the engineers concluded that flotation feed sizings within the range of $120\mu mK_{80}$ to coarser than $200\mu mK_{80}$ will produce metallurgically similar results. To put it more plainly, a coarser grind size can be employed without any reduction in the current estimated recoveries, which should noticeably reduce operating and capital costs for the project. There is a possibility of being able to employ an even coarser grind thereby reducing operating and capital costs even further. Additional engineering testwork at flotation feed sizings of 200µm to 220µm will be conducted in the near future in order to finalize the optimization process.

Key drilling results obtained to date from the 1997 program include two drill holes at Petaquilla which link mineralization at the Main Zone with the Southwest Zone and suggest starter-pit potential at the Southwest Zone. Of even greater significance are results of the three holes at the Valle Grande deposit, which suggest expanded starter-pit potential in this deposit. These results indicate that the western starter pit can be expanded and the two other Valle Grande starter pits can be linked to form a second expanded pit as shown on the location map. The results from the three holes are:

Hole #	Interval (metres)	Width (metres)	Cu (%)	Au (g/t)	Ag (g/t)	MoS_2 (%)	Cu_{eq} (%)
VG97-13	145.0 - 212.8	67.8	0.74	0.08	3.4	0.013	0.84
incl.	145.0 - 191.5	46.5	0.85	0.10	3.8	0.015	0.97
VG97-14	13.1 - 119.5	106.5	0.57	0.06	3.8	0.018	0.68
incl.	71.5 - 113.5	42.0	0.75	0.09	4.8	0.010	0.84
VG97-15	57.0 - 138.0	81.0	0.70	0.10	3.4	0.013	0.81
incl.	123.0 - 138.0	15.0	1.30	0.22	5.2	0.010	1.47

Financing Agreement with Teck

Teck can earn half of Adrian's 52% interest in Petaquilla by completing, at its own cost, a bankable final feasibility study for Petaquilla by January 1998 and then providing or arranging all of Adrian's share of the costs of placing the property into production, or 52% of the total costs.

As compensation for Adrian's agreement to extend the time for completing the final bankable feasibility study, Teck also agreed to purchase 1,000,000 shares of Adrian on the open market and 500,000 shares from the treasury of Adrian at a price of $3.45 per share. Both of these purchases were completed in March of this year.

The Petaquilla Law

With the passage of project legislation relating to the development of Petaquilla, Adrian's interest in the project is now held through its 52% ownership of Minera Petaquilla, S.A. ("Minera Petaquilla"). Minera Petaquilla is the operating company which will undertake the development of the Petaquilla Property. It is owned by Adrian as to 52% and by Inmet Mining Corporation as to 48%. Teck can acquire one half of Adrian's interest in Minera Petaquilla on the basis set out above.

The project legislation contains fiscal and legal stability clauses necessary in order to obtain project financing for Petaquilla. In addition, the project legislation provides for a 60 year concession and includes substantial tax exemptions on income, dividends and imports. It also provides for an increase in the annual available infrastructure tax credit, higher depreciation rates for depreciable assets which cannot be used in the infrastructure tax credit pool and a very favourable depletion allowance. This legislative approval represents a decisive step by the Government of Panama in the development of the Petaquilla Project. Adrian greatly appreciates the ongoing support of the Government of Panama.

Outlook

The Petaquilla project has been called a "surefire winner" by respected mining industry analyst CRU International. In February 1997, CRU ranked Petaquilla as one of the top five copper projects in the world alongside the Collahuasi property of Falconbridge and Minorco in Chile and the Agua Rica joint venture of BHP and Northern Orion in Argentina. Adrian looks forward to the completion of the final feasibility work for this world class project in 1998.

By order of the
Board of Directors
of Adrian Resources Ltd.

Chet Idziszek
President and Chief Executive Officer
June 20, 1997

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada, and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, Coopers & Lybrand, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards, and their report follows.

James G. Stewart
Secretary and General Counsel

Chet Idziszek
President and Chief Executive Officer

Vancouver, B.C.
April 11, 1997

Independent Auditors' Report to the Shareholders of Adrian Resources Ltd.

We have audited the consolidated balance sheets of Adrian Resources Ltd. as at January 31, 1997 and 1996 and the consolidated statements of earnings (loss) and deficit and cash flows for the years ended January 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1997 and 1996 and the results of its operations and its cash flows for the years ended January 31, 1997, 1996 and 1995 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Vancouver, B.C.
April 11, 1997

used th for '96.

Consolidated Balance Sheets
As at January 31, 1997 and 1996
(expressed in Canadian dollars)

	1997 $	1996 $
Assets		
CURRENT ASSETS		
Cash and term deposits	4,691,360	8,893,551
Restricted cash (note 3)	–	30,274
Marketable securities (note 4)	496,449	293,264
Accounts receivable	363,700	1,469,869
Prepaid expenses	66,596	64,082
	5,618,105	10,751,040
MINERAL PROPERTIES (note 5)	31,259,384	28,978,749
PROPERTY, PLANT AND EQUIPMENT (note 6)	212,992	262,384
	37,090,481	39,992,173
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	358,019	950,785
Exploration advances (note 3)	–	30,274
	358,019	981,059
Shareholders' equity		
CAPITAL STOCK (note 7)		
Issued -		
30,587,766 common shares without par value (1996 - 30,106,416)	46,791,831	45,751,331
DEFICIT	(3,770,980)	(2,447,293)
	43,020,851	43,304,038
Repurchased, not cancelled - 1,660,200 common shares (1996 - 1,160,200)	(6,288,389)	(4,292,924)
	36,732,462	39,011,114
	37,090,481	39,992,173

NATURE OF OPERATIONS (note 1)

APPROVED BY THE DIRECTORS

Director

Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Earnings (Loss) and Deficit

For the years ended January 31, 1997, 1996 and 1995
(expressed in Canadian dollars)

	1997 $	1996 $	1995 $
REVENUE			
Interest income	417,470	701,987	178,651
Property payments (note 2)	1,180,330	1,613,102	1,123,024
Property revenue forgiven (note 5(a))	(671,428)	–	–
Gain on sale of mineral property	–	–	7,527,256
	926,372	2,315,089	8,828,931
EXPENSES			
Accounting and legal	235,570	235,050	102,796
Capital tax	11,457	60,140	19,794
Depreciation	66,074	57,982	26,980
Directors' fees	114,487	42,562	29,500
Filing fees	35,632	24,736	37,014
Fiscal agency and consulting fees	52,082	117,043	322,527
Foreign exchange loss	86,587	36,301	96,645
Insurance	86,739	46,933	7,778
Interest and bank charges	5,750	11,475	81,714
Investor relations and shareholder information	743,828	417,233	94,801
Office administration	213,402	240,134	136,993
Rent	115,433	132,914	53,894
Travel	135,906	294,309	186,735
Transfer agent fees	19,637	15,620	8,923
U.S. registration filing fees	–	139,638	–
Wages and benefits	334,731	545,225	225,341
Loss (gain) on sale of investments	(7,256)	(2,748)	57,017
Write-down of marketable securities	–	510,720	–
	2,250,059	2,925,267	1,488,452
EARNINGS (LOSS) FOR THE YEAR	(1,323,687)	(610,178)	7,340,479
DEFICIT - BEGINNING OF YEAR	(2,447,293)	(1,837,115)	(9,177,594)
DEFICIT - END OF YEAR	(3,770,980)	(2,447,293)	(1,837,115)
EARNINGS (LOSS) PER SHARE	(0.04)	(0.02)	0.28
FULLY DILUTED EARNINGS PER SHARE	N/A	N/A	0.28

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended January 31, 1997, 1996 and 1995
(expressed in Canadian dollars)

	1997 $	1996 $	1995 $
CASH PROVIDED FROM (USED FOR)			
OPERATING ACTIVITIES			
Earnings (loss) for the year	(1,323,687)	(610,178)	7,340,479
Items not involving cash -			
Depreciation	66,074	57,982	26,980
Gain on sale of mineral property	–	–	(7,527,256)
Loss (gain) on sale of investments	(7,256)	(2,748)	57,017
Write-down of marketable securities	–	510,720	–
Foreign exchange loss	–	–	64,600
	(1,264,869)	(44,224)	(38,180)
Changes in non-cash operating working capital items (note 11)	510,889	318,759	(1,229,958)
	(753,980)	274,535	(1,268,138)
FINANCING ACTIVITIES			
Issue of common shares for -			
Cash	1,040,500	6,248,482	9,424,076
Services	–	–	175,000
Note payable	–	–	(2,659,000)
Capital stock repurchases	(1,995,465)	(4,292,924)	–
	(954,965)	1,955,558	6,940,076
INVESTING ACTIVITIES			
Sale of mineral property	–	–	8,000,000
Mineral property expenditures	(2,280,635)	(3,722,600)	(5,574,414)
Purchase of property, plant and equipment	(16,682)	(164,147)	(97,501)
Acquisition of investments/marketable securities	(285,000)	(167,500)	(471,500)
Proceeds from sale of investments/marketable securities	89,071	29,248	143,436
	(2,493,246)	(4,024,999)	2,000,021
INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(4,202,191)	(1,794,906)	7,671,959
CASH AND TERM DEPOSITS - BEGINNING OF YEAR	8,893,551	10,688,457	3,016,498
CASH AND TERM DEPOSITS - END OF YEAR	4,691,360	8,893,551	10,688,457

The accompanying notes form an integral part of these consolidated financial statements.

1. Nature of operations

The Company is in the business of the acquisition, exploration, exploration management, development and sale of mineral properties and has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition thereof. The Company will periodically have to raise additional funds to complete exploration and development, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

2. Summary of significant accounting policies

Generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ in some respects from those in the United States. These differences are set out in note 14.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned Panamanian subsidiaries, Adrian Resources, S.A. (Resources) and Geo Recursos Internacional, S.A. (Geo Recursos).

Cash and term deposits

Cash and term deposits include cash and deposits of varying maturing dates within one year of the original date of acquisition. In order to limit its exposure, the Company diversifies its selection of counterparties for short-term deposits. Fair value of cash balances approximates the amounts reflected on the consolidated balance sheets.

Loss per common share

Loss per common share is calculated using the weighted average number of common shares issued and outstanding during each year, excluding escrow shares.

Marketable securities

Marketable securities are valued at the lower of cost and quoted market value on an individual investment basis.

Mineral properties

Acquisition costs of mineral properties, together with direct exploration and development expenditures incurred thereon, are deferred. Upon commencement of commercial production, these costs will be amortized. The carrying values of mineral properties are, where necessary, written down to the estimated recoverable amount based on undiscounted estimated future net cash flows. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company follows the cost reduction method of accounting for the receipt of option and similar payments. Cash and other property payments received from the Company's exploration partners are credited to the respective property until capitalized costs are recovered; thereafter, such payments are included in income. Option payments are exercisable at the discretion of the optionee and are only recognized when received. Management fees earned for the management of properties are included in income.

2. Summary of significant accounting policies (cont'd)

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, which is provided on furniture, computer and office equipment on the declining balance basis at rates varying between 20% and 30% per annum, and on leasehold improvements on the straight-line basis at 20% per annum.

Foreign currency translation

Integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate, non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates, and revenue and expenses are translated at the average rate of exchange during the year. Translation gains and losses are reflected in earnings (loss) for the year.

Foreign-currency-denominated monetary accounts of the Company are translated at the year-end exchange rate. Exchange gains and losses on translation are recognized in earnings (loss) in the year they arise, except for unrealized foreign exchange gains and losses on long-term monetary assets and liabilities, which are deferred and amortized over the remaining lives of the related items.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported.

Financial instruments

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximates their fair values.

3. Restricted cash

Amounts advanced pursuant to mineral property agreements, to be expended on specified exploration activities, are recorded as exploration advances. Cash received in advance of expenditures incurred is recorded as restricted cash.

4. Marketable securities

Marketable securities and investments consist of shares in public companies. As at January 31, 1997, the shares had an aggregate quoted market value of $1,018,790 (1996 - $296,764). During the year, a gain of $7,256 resulted from the sale of marketable securities.

In 1996, investments were reclassified as marketable securities as the Company considered them currently available for sale. In 1996, marketable securities were written down by $510,720 to the lower of cost and market value.

Included in marketable securities and investments are shareholdings in companies related by virtue of common directors with an aggregate written down cost of $463,000 (1996 - $195,500) and market value of $983,000 (1996 - $199,000).

(expressed in Canadian dollars)

5. Mineral properties

	1997 $	1996 $
Cerro Petaquilla (a)	30,849,984	28,569,349
Lanark (b)	141,046	141,046
Iglesias (c)	169,982	169,982
Viriguas (d)	41,296	41,296
La Esperanza (e)	1	1
Belencillo (f)	1	1
Santa Lucia, Ore Del Norte (g)	2	2
Oro Del Sur (g)	1	1
Aro Grande (h)	36,996	36,996
Other properties (i)	75	75
Reclamation deposits	20,000	20,000
	31,259,384	28,978,749

(a) Cerro Petaquilla

The Company, through its wholly owned subsidiary Geo Recursos, owns 52%, and Minnova (Panama) Inc. (Minnova), a wholly owned subsidiary of Inmet Mining Corporation (Inmet), owns 48% of Minera Petaquilla S.A. (Minera Petaquilla), a company formed to own the Petaquilla mineral concession which covers approximately 13,600 hectares in Panama.

Teck Corporation (Teck) has an option to acquire 50% of the Company's interest in Minera Petaquilla, resulting in Teck having a 26% interest in Minera Petaquilla. In order for Teck to acquire the 26% interest, it is required to:

(i) fund 52% of the continuing exploration expenditures, as defined, of Minera Petaquilla, with Minnova to fund its 48% share, until such time as Teck either acquires its interest or its interest is terminated.

(ii) fund 100% of and complete a final bankable feasibility study, as defined, for the property and deliver such study by January 21, 1998.

(iii) arrange project financing for Minera Petaquilla for completion of development of the Petaquilla project and, if necessary, fund 52% (Minnova to fund 48%) of any shortfall in the total project funding requirement in excess of arranged project financing.

Upon delivering the final bankable feasibility study, Teck has a period of 90 days in which to make a final commitment, as defined, in respect of development of the concession. Teck may give notice and defer making a final commitment if unfavourable economic conditions, as defined, exist. In such an event, Teck is thereafter committed to annually update and deliver its final bankable feasibility study of the concession. The requirement to make a final commitment within 90 days of delivery of the revised study applies to all subsequent annual anniversaries. Failure to make such a commitment shall result in the termination of Teck's right to acquire an interest in Minera Petaquilla.

Upon Teck making a final commitment, Minnova is required to deliver a final commitment to participate in the development of the project or it will be required to dispose of its interest in Minera Petaquilla. Minnova is then required to either offer to sell its interest in the concession or accept an 8% net profit interest, as defined, in the project. The offer to sell its interest shall be made firstly to

5. Mineral properties (cont'd)

(a) Cerro Petaquilla (cont'd)

the Company and then to Teck at a price to be determined by Minnova. In the event that neither the Company nor Teck choose to acquire Minnova's interest, Minnova shall be entitled to seek an independent purchaser of its interest on terms no more favourable than those offered to the Company and Teck.

Either the Company or Minnova (the Proposer) may at any time give notice to the other parties of their intention to proceed with commencement of development operations on the concession in accordance with the most recently delivered Teck study. Upon receipt of such notice, Teck has 50 days in which to make a final commitment to develop the project. The other party, the Company or Minnova (the Recipient), has 60 days from the receipt of such notice to commit to develop the project.

If the Recipient has not agreed to develop the project, the Proposer may, within 70 days of the proposal, elect to exercise the "Shotgun Offer," as defined, and either sell its interest or acquire the Recipient's interest in Minera Petaquilla, for cash, based on the value of Minera Petaquilla as determined in accordance with the provisions of the agreement. The Recipient has 15 days from receipt of the Shotgun Offer to agree to either sell its interest or acquire the Proposer's interest as applicable, and in the event that the Recipient does not take action within the 15 day period, it will thereafter be deemed to have agreed to sell its interest in Minera Petaquilla.

If Minnova sells its interest, pursuant to the Shotgun Offer, the Company will pay Minnova 48% of the value of Minera Petaquilla.

If the Company sells its interest, pursuant to the Shotgun Offer, it shall receive 29% of the value of Minera Petaquilla on condition that in the event that Teck's interest in the concession is terminated, the Company shall receive an additional 23% of the value of Minera Petaquilla.

If Teck's interest in the concession is not terminated and the Company sells its interest, pursuant to the Shotgun Offer, the Company shall not be entitled to receive any further amount, in excess of the 29% of the value received on account of the sale of its interest in Minera Petaquilla.

Upon exercise of the Shotgun Offer, Teck has 130 days in which to deliver a final commitment for development of the concession or its interest shall be terminated.

Teck's interest in the concession shall terminate on the first of:

(iv) Teck electing to terminate its interest provided it has delivered its final bankable feasibility study

(v) Teck's failure to deliver the final bankable feasibility study by January 21, 1998

(vi) failure of the final bankable feasibility study to meet the requirements of the program as anticipated by the agreement

(vii) Teck's failure to deliver a final commitment as outlined above

(vii) Teck's failure to tender payment for 500,000 shares of the Company on or before March 7, 1997 (subsequently completed (note 15))

(ix) Teck's failure to make open market purchases for 1,000,000 shares of the Company on or before April 22, 1997 (subsequently completed (note 15)).

5. Mineral properties (cont'd)

(a) Cerro Petaquilla (cont'd)

In the event that Teck's interest is terminated, Teck shall retain a net profit royalty interest in the project at a rate to be determined.

Previously, the Company had managed, on behalf of Teck and Minnova, all exploration activities on the property and has charged a management fee to each based on a percentage of exploration expenditures incurred. As a result of reaching definitive terms of agreement with Teck, Teck will continue as operator for the remainder of exploration and development of the property. As part of this agreement, the Company agreed to waive $671,428 in management fees from Teck, of which $90,531 was for the year ended January 31, 1996 and $580,897 was for the year ended January 31, 1997.

(b) Lanark

The Company has a 100% interest in certain mineral claims located in the Revelstoke Mining Division of British Columbia.

(c) Iglesias

The Company has a 100% interest in the Iglesias mineral exploration concession located in the Republic of Panama.

On March 22, 1996, an option agreement, which entitled the optionee (a company related by virtue of common directors) to acquire up to a 50% interest in the Iglesias property, was terminated. The Company received $50,000 in the year ended January 31, 1995 pursuant to the terms of the option agreement which provided for a series of payments in cash, issuance of shares of the optionee and the incurrence of a program of exploration expenditures with the payment of management fees to the Company based on 10% of phase exploration expenditures.

The Company received aggregate management fees of $28,626 in the year ended January 31, 1996, prior to termination of the option agreement.

(d) Viriguas

The Company has a 100% interest in the Viriguas mineral exploration concession located in the Republic of Panama. The Company has granted an option whereby the optionee can earn an 80% interest in the property in exchange for U.S. $100,000 (received) and by incurring U.S. $600,000 in exploration expenditures by March 31, 1996, and an aggregate of U.S. $1,000,000 by March 31, 1997, of which approximately U.S. $504,000 had been incurred by January 31, 1997.

The Company has received notice from the optionee stating that a Force Majeure event has prevented the optionee from fulfilling exploration expenditures as required by the option agreement. This is currently under consideration by the Company.

5. Mineral properties (cont'd)

(e) La Esperanza

The Company has a 100% interest in the La Esperanza mineral exploration concession located in the Republic of Panama.

The Company has granted an option whereby the optionee can earn a 50% interest in the concession. The ongoing terms of the agreement were:

(i) paying $250,000 in five annual installments of $50,000 commencing on July 29, 1993, of which $150,000 had been received by January 31, 1997.

(ii) issuing 200,000 shares in four annual installments of 50,000 shares commencing on July 29, 1993, of which 150,000 shares had been received by January 31, 1997, and issuing an additional 100,000 shares on commencement of commercial production.

(iii) incurring an aggregate of $2,500,000 on exploration and development expenditures, including management fees payable to the Company of 15% of expenditures, by July 29, 1997. Total expenditures of $814,231, excluding management fees, have been incurred and total management fees of $122,134 have been received by January 31, 1997.

During the year ended January 31, 1997, the Company agreed to a one year extension of all of the terms of the agreement.

(f) Belencillo

The Company has a 100% interest in the Belencillo mineral exploration concession located in the Republic of Panama.

The Company has granted an option to a company related by virtue of common directors, whereby the optionee can earn a 50% interest in the concession by:

(i) paying $250,000 in five annual installments of $50,000 commencing August 24, 1993, of which $200,000 had been received by January 31, 1997.

(ii) issuing 200,000 shares in four annual installments of 50,000 shares commencing on August 24, 1993 (200,000 received) and an additional 100,000 shares on commencement of commercial production.

(iii) incurring an aggregate of $2,500,000 on exploration and development expenditures, including management fees payable to the Company of 15% of expenditures, by August 24, 1997. Total expenditures of $1,300,391, excluding management fees, have been incurred and total management fees of $195,059 have been received by January 31, 1997.

(g) Oro Del Norte, Santa Lucia and Oro Del Sur

The Company granted separate options to a company related by virtue of common directors on the Santa Lucia and Oro Del Norte properties, whereby the optionees can earn a 50% interest in each of the properties under the following terms.

5. Mineral properties (cont'd)

(g) Oro Del Norte, Santa Lucia and Oro Del Sur (cont'd)

Oro Del Norte
The optionees can earn a 50% interest by:

(i) paying $250,000 in five annual installments of $50,000 commencing in June 1994, of which $150,000 was received by January 31, 1997.

(ii) issuing 50,000 shares by June 9, 1994 (received).

(iii) issuing 150,000 shares in three annual installments of 50,000 shares each commencing by the earlier of June 9, 1994 or when the first, second and third phases of exploration expenditure are completed, of which 100,000 shares had been received by January 31, 1997, and issuing an additional 100,000 shares on the commencement of commercial production.

(iv) incurring an aggregate of $2,500,000 on exploration and development expenditures, including management fees payable to the Company of 15% of expenditures, by June 9, 1998. Total expenditures, excluding management fees, of $1,870,249 were incurred by January 31, 1997. Total management fees of $280,537 were received by January 31, 1997.

Santa Lucia
The Company received $150,000 and 150,000 shares of the optionee in respect of the Santa Lucia property. The optionee had incurred $574,156 in exploration expenditures, excluding management fees, on the property and paid the Company $86,123 in management fees by January 31, 1997. The optionee was required to incur $750,000 in exploration expenditures by June 9, 1996, including management fees payable to the Company at 15% on expenditures incurred. The Company has entered into negotiation with the optionee but has not yet given formal notice of default and termination of the option agreement.

Oro Del Sur
The Company granted an option to an unrelated company to earn a 50% interest in the Oro Del Sur property. The Company received $50,000 and 50,000 shares of the optionee in respect of the Oro Del Sur property during the year ended January 31, 1995. The optionee had incurred $54,183 in exploration expenditures, excluding management fees, on the property and paid the Company $8,128 in management fees prior to expiry of the option agreement during the year ended January 31, 1996.

(h) Aro Grande
On September 23, 1994, the Company entered into a joint venture with a company related by virtue of a common director to carry out continued exploration expenditures on the Aro Grande property. The agreement established a corporation in which the joint venturers subscribe for shares and bear all costs in proportion to their respective share participation. During the year ended January 31, 1997, the Company incurred $nil (1996 - $10,227) in exploration expenditures on this property. The company currently has no future plans for this property.

(expressed in Canadian dollars)

5. Mineral properties (cont'd)

(i) Impairment of long-lived assets

The Company is in the process of exploring and developing its various properties and has not yet determined the amount of reserves available in its properties. On a quarterly basis, senior management reviews the carrying values of deferred mineral property acquisition and exploration expenditures with a view to assessing whether there has been impairment in value. There have been no events or changes in circumstances to indicate that the carrying values of the properties should be assessed. In the event that reserves are determined to be insufficient to recover the carrying value of any property, the carrying value will be written down or written off, as appropriate.

The recoverability of the book value of mineral properties with proven and probable reserves is evaluated periodically. Estimated future net cash flows from each property are calculated where information is available using estimates of proven and probable ore reserves, estimated commodity prices and operating, capital and reclamation costs on an undiscounted basis. If the remaining investment in mineral properties exceeds the estimate of undiscounted cash flows, reductions in the carrying value of each property are recorded to the extent the remaining investment exceeds the estimate of discounted cash flows.

Management's estimate of commodity prices, recoverable proven and probable reserves, operating, capital and reclamation costs are subject to risks and uncertainties of change affecting the recoverability of the Company's investment in mineral properties. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur in the near term which could adversely affect management's estimate of net cash flows expected to be generated from its operating properties and the need for asset impairment write-downs.

6. Property, plant and equipment

	1997		
	Cost $	Accumulated depreciation $	Net $
Computer equipment	219,268	107,858	111,410
Furniture and fixtures	69,553	27,407	42,146
Office equipment	26,197	12,972	13,225
Leasehold improvements	55,056	8,845	46,211
	370,074	157,082	212,992

	1996		
	Cost $	Accumulated depreciation $	Net $
Computer equipment	204,923	64,466	140,457
Furniture and fixtures	69,091	16,876	52,215
Office equipment	26,197	9,666	16,531
Leasehold improvements	53,181	–	53,181
	353,392	91,008	262,384

(expressed in Canadian dollars)

7. Capital stock

(a) Authorized -

100,000,000 common shares without par value
20,000,000 preferred shares without par value

During the year ended January 31, 1996, the Company increased its authorized common shares without par value from 50,000,000 shares to 100,000,000 shares (1995 - increased to 50,000,000 from 20,000,000.)

(b) Issued and outstanding -

	Number of shares	Amount $
January 31, 1994	23,438,344	29,903,773
Exercise of stock options	86,000	172,000
Fiscal agency agreement (c(i))	87,500	175,000
Private placement (c(iv))	941,186	3,456,826
Resource property options	400,000	1,200,000
Exercise of warrants (c(ii), c(iii), c(v))	3,120,250	4,595,250
January 31, 1995	28,073,280	39,502,849
Exercise of stock options	220,700	493,850
Exercise of warrants (c(ii), c(iii), c(iv))	1,812,436	5,754,632
January 31, 1996	30,106,416	45,751,331
Exercise of stock options	481,350	1,040,500
January 31, 1997	30,587,766	46,791,831
Shares repurchased (d)		
January 31, 1996	(1,160,200)	(4,292,924)
January 31, 1997	(500,000)	(1,995,465)
	(1,660,200)	(6,288,389)

(c) During the year ended January 31, 1995, the Company issued the following:

(i) 87,500 shares valued at $175,000 for services provided to the Company by Yorkton Securities Inc., pursuant to a fiscal agency agreement entered into during the year ended January 31, 1994.

(ii) 748,750 shares relating to warrants received to purchase 1,620,000 common shares at $2.50 per share, pursuant to a public offering during the year ended January 31, 1994. During the year ended January 31, 1996, the remaining 871,250 warrants were exercised.

(iii) 1,221,500 shares relating to warrants received, pursuant to a public offering during the year ended January 31, 1994.

(iv) 941,186 common shares pursuant to a private placement for gross proceeds of $3,576,507 less costs of $119,681. In addition, the investors received warrants to purchase an additional 941,186 common shares at $3.80 per share until November 18, 1995. During the year ended January 31, 1996, 941,186 warrants were exercised and no warrants remained outstanding at year end.

(v) As at January 31, 1995, the remaining 1,150,000 warrants had been exercised in relation to the acquisition of Geo Recursos.

(expressed in Canadian dollars)

7. Capital stock (cont'd)

(d) During the year ended January 31, 1997, the Company completed a normal course issuer bid for 500,000 (1996 - 1,160,200) commonshares at a cost of $1,995,465 (1996 - $4,292,924). The shares are being held at cost as treasury stock.

(e) As at January 31, 1997, stock options outstanding to directors and employees were as follows:

Number of shares	Exercise price $	Expiry date
130,000	5.10	April 16, 1997
538,000	1.83	May 19, 1998
594,150	2.00	July 28, 1998
193,684	2.00	August 26, 1998
50,000	2.00	August 27, 1998
354,900	3.15	February 22, 1999
248,825	3.50	September 8, 1999
125,000	4.55	June 14, 2000
10,000	4.70	October 26, 2000
30,000	4.95	November 20, 2000

(f) On April 28, 1995, the Board of Directors adopted a Shareholders' Rights Plan (the Plan). Under the Plan, one right has been issued for each common share outstanding on that date and an additional right for each common share issued thereafter. Each right entitles the holder to purchase securities of the Company subject to terms and conditions of the agreement. Generally, if a person acquires or offers to acquire 20% or more of the voting shares, rights will become exercisable and entitle the holders of the rights, other than the acquiring person, to purchase one common share for the exercise price, which is one-half of the current market price at exercise date.

The rights are not exercisable in the event of a "permitted bid." A permitted bid, which is in effect a takeover bid made to all shareholders by way of a takeover bid circular, must remain outstanding for 60 days and be supported by more than 50% of shareholders independent of the bidder. At any time before the rights become exercisable, the Board of Directors may redeem them at a price of $0.0001 per right. The Board of Directors has the authority to amend and terminate the agreement.

The Plan was approved at an annual general shareholders' meeting on June 8, 1995. The Plan will continue until April 28, 2005.

(expressed in Canadian dollars)

8. Related party transactions

(a) The Company incurred the following amounts with companies related or formerly related by virtue of common directors:

	1997 $	1996 $	1995 $
Consulting fees	58,082	117,034	90,735
Interest	–	–	79,064
Exploration costs	327,887	1,206,680	2,038,651

Exploration management fees and exploration costs have been capitalized to the mineral properties to which they relate.

The Company received the following amounts from companies related or formerly related by virtue of common directors:

Exploration management fees	74,085	364,609	237,387
Interest income	1,070	18,202	–
Property payments	417,500	317,500	480,000

(b) The Company incurred legal expenses of $129,513 (1996 - $166,763; 1995 - $48,274) with law firms in which a director was and is a partner.

(c) As at January 31, 1997, accounts payable include $227,666 (1996 - $186,742) due to companies related by virtue of common directors and $20,204 (1996 - $13,190) due to a law firm in which a director is a partner. Accounts receivable include $37,135 (1996 - $73,423) due from a company related by virtue of common directors.

9. Commitment

The Company is committed to future minimum annual operating lease payments of approximately $55,790 for office premises expiring in 1999.

10. Segmented information

The Company's business is the exploration and development of mineral properties. Details of geographic segments are as follows:

	1997 $	1996 $	1995 $
Earnings (loss) for the year -			
Canada	(1,464,402)	(1,385,947)	6,575,872
Latin America	140,715	775,769	764,607
	(1,323,687)	(610,178)	7,340,479
Assets -			
Canada	4,872,406	8,178,529	11,595,025
Latin America	32,218,075	31,813,644	27,669,402
	37,090,481	39,992,173	39,264,427

(expressed in Canadian dollars)

11. Changes in non-cash operating working capital items

	1997	1996	1995
	$	$	$
Restricted cash	30,274	834,028	(609,027)
Accounts receivable	1,106,169	154,864	(1,373,735)
Prepaid expenses	(2,514)	(52,499)	(1,407)
Accounts payable and accrued liabilities	(592,766)	216,394	145,184
Exploration advances	(30,274)	(834,028)	609,027
	510,889	318,759	(1,229,958)

12. Taxes

The loss carry forward for Canadian income tax purposes that has not been recognized in these consolidated financial statements is $2,695,318 (1996 - $1,161,939). This loss will expire as follows:

	$
2003	1,161,939
2004	1,533,379

A final determination of the tax deductions attributable to expenditures on the property in Panama has not yet been completed. No benefit has been recognized in these financial statements for the tax benefit of these expenditures. In addition, certain payments to Panamanian non-residents for services relating to ongoing exploration activities on the property may be subject to Panamanian withholding taxes. While the Company believes that there is no liability for these withholding taxes, a final determination of this matter has not been made. Accordingly, these consolidated financial statements do not include any accrued liability for Panamanian withholding taxes. Should a liability for past services be determined in the future, it will be recorded as a charge to deferred property costs at the time of determination.

13. Contingent liabilities

During the year ended January 31, 1997, a claim against the Company was commenced by Smith Barney Inc. to collect a retainer for services allegedly rendered to the Company of U.S. $400,000 plus interest.

The Company believes the claim is without merit. No estimate has been made of the likelihood of the eventual loss, if any, arising from this proceeding and no amount has been accrued in the accounts.

(expressed in Canadian dollars)

14. Differences between Canadian and U.S. generally accepted accounting principles

Significant differences between generally accepted accounting principles in Canada and in the United States which would have an effect on these consolidated financial statements are as follows:

	1997 $	1996 $	1995 $
Earnings (loss) for the year following Canadian GAAP	(1,323,687)	(610,178)	7,340,479
Adjustments for -			
Interest capitalized (a)	–	–	79,407
Deferred foreign exchange write-off (b)	–	–	64,600
Earnings (loss) for the year following U.S. GAAP	(1,323,687)	(610,178)	7,484,486
Primary earnings (loss) per share	(0.04)	(0.02)	0.28
Fully diluted earnings per share	N/A	N/A	0.28
Weighted average shares outstanding	33,544,565	31,390,977	29,494,608
Shareholders' equity following Canadian GAAP	36,732,462	39,011,114	37,665,734
Cumulative net holding losses on investments	(30,000)	–	(361,206)
Cumulative net holding gains on investments	552,341	–	–
Cumulative interest	127,800	78 127,800	127,800
Shareholders' equity following U.S. GAAP	37,382,603	39,138,914	37,432,328

(a) Interest capitalized

Under U.S. GAAP, interest expense on a note payable, which was repaid in 1994, would have been capitalized to mineral properties.

(b) Foreign exchange write-off

Foreign exchange losses arising on long-term debt are deferred and amortized over the term of investment under Canadian GAAP. Under U.S. GAAP, foreign exchange losses would have been included in income in the year they arose.

(c) Marketable securities

Under Canadian GAAP, the marketable securities held by the Company are recorded at cost and are written down when there has been a decline in value which is other than temporary. Under Statement of Financial Accounting Standards (SFAS) No. 115, these investments are classified as "available for sale" securities and recorded at market value. The accumulated difference between cost and market value is recorded as a separate component of shareholders' equity as net unrealized holding losses.

(expressed in Canadian dollars)

14. Differences between Canadian and U.S. generally accepted accounting principles (cont'd)

(d) Non-cash financing and investing activities

Under U.S. GAAP, non-cash transactions are not included in the consolidated statements of cash flows but are disclosed in a separate schedule. Accordingly, cash provided by financing activities and used in investing activities would be lower by the following amounts each year:

	1997	1996	1995
	$	$	$
	Nil	Nil	175,000

(e) Supplementary U.S. GAAP disclosure

	1997	1996	1995
	$	$	$
Interest paid	Nil	Nil	79,407

(f) Income taxes

The United States' Financial Accounting Standards Board has issued SFAS No. 109, "Accounting for Income Taxes," which became effective for fiscal years beginning after December 15, 1992. The Company has determined the adoption of this Statement would have no material effect on the assets, liabilities or operations for the years presented in these consolidated financial statements.

(g) Post-retirement funds

The Company has no pension plans or arrangements for other post-retirement benefits, and therefore, there was no effect from the implementation of the SFAS No. 106.

(h) Cash and term deposits

Under U.S. GAAP, only investments with original maturities of three months or less qualify as cash equivalents. Based on this definition, cash and term deposits as at January 31, 1997 of $4,691,360 would classify as cash and cash equivalents.

(i) Stock option compensation

The Company follows the recommendation of APB 25 in accounting for stock options.

15. Subsequent event

By agreement dated February 21, 1997 between the Company and Teck, the Company has notified Teck that it requires Teck to purchase 500,000 common shares of the Company from treasury at a price of $3.45 per share by March 7, 1997 and 1,000,000 common shares of the Company on the open market by April 22, 1997. Subsequent to January 31, 1997, both the above transactions were completed. Refer also to note 5(a).

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Capitalization *(as of May 31, 1997)*

Issued - 31,087,766
(Repurchased, not cancelled = 1,660,200 common shares)
Reserved for Issuance pursuant
to the exercise of incentive options - 2,144,559
(estimated proceeds $5,008,531)

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